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S E C R E T SECTION 01 OF 02 LAGOS 002147

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NOFORN

E.O. 12958: DECL: 10/16/2013
TAGS: ECON ENRG EPET NI PGOV
SUBJECT: NIGERIA: FUEL SUPPLY AND PRICE REMAIN IN TENSE LIMBO

REF: A. LAGOS 2100
¶B. ABUJA 1737
¶C. LAGOS 2078

Classified By: JGREGOIRE FOR REASONS 1.5 (B) AND (D)

¶1. (C) Summary: The status of fuel supply and pricing in Nigeria remains in question as fuel marketers and labor leaders left a stakeholders' meeting on October 16 with little agreement but significant distrust and resentment. Labor promises mass action at retail stations if marketers do not sell gasoline at the price of 34 naira per liter. Mobil fears it will be targeted for action, possibly including violence. A technical committee will meet in early November to discuss the mechanics of deregulation, but its likely effect is questionable, and hard decisions regarding supply and price must be made in the interim, leaving a volatile situation in place. End Summary.

DISAGREEING TO AGREE?

¶2. (C) A nationwide strike was averted in Nigeria late on October 8 when labor, fuel marketers, governors and national legislators agreed to form a Petroleum Stakeholders Committee (PSC) to discuss the deregulation of the downstream sector, which President Obasanjo imposed abruptly the week before (reftels). The Nigeria Labor Congress (NLC) publicly described the agreement as also keeping fuel prices at 34 naira per liter, at least in the short-term (this was the government-imposed ceiling until the president's action of October 1).

¶3. (C) Confusion and hostility was seen throughout the country this last week as fuel stations charged varying prices for fuel (ref B), or failed to open altogether because managers did not know at what price to sell or feared union action. Adding to the confusion was the arrival of a shipment of fuel imported by private marketers (ref A).

¶4. (S/NF) The inaugural meeting of the PSC was held in Abuja on October 16. A communique issued after the meeting by the Governors' Forum states that the Committee agreed to form a technical committee to "harmonize" positions, that it found the marketers had failed to abide by last week's agreement, and that they should revert to a 34 naira per liter gas price "in the interest of peace." Nonetheless, Anthony Jones, the American Country Director of the AFL-CIO's Solidarity Center in Nigeria (strictly protect), told Labor Officer that the NLC feels the governors are backing away from their earlier support of labor's position that prices should remain at 34 naira for the short-term. In a lengthy conversation with Econoff within hours of the meeting, John Pototsky, Managing Director of Mobil (strictly protect), characterized the meeting as acrimonious and divisive, and the formation of a technical committee as a sham to waste more time without implementation of deregulation.

LABOR RESORTS TO INTIMIDATION

¶5. (S/NF) Pototsky, clearly distressed and angered by the day's events, told Econoff that during the meeting, the NLC issued threats that Mobil stations will be burned down if the company does not revert to 34 naira per liter for gas prices. He said he asked why his company was being singled out for such action, and was told it was because some Mobil stations sold fuel above 34 naira during the last week, and others

were most noticeably closed last weekend, after the strike-averting agreement was to take effect. Pototsky said he explained to the Committee his dealers closed last weekend and early this week for two reasons: 1) NLC road transport workers blockaded a Mobil tanker truck parking lot, preventing drivers from re-supplying stations running empty in the crush of consumers who were panic-buying, and 2) many station managers found NLC members taking over their gas pumps, ostensibly to ensure that fuel was sold at 34 naira but with no control, and at some stations union members were attempting to remove fuel directly from underground storage tanks. Pototsky told Econoff he portrayed the situation to the Committee as a security and supply problem, forcing his stations to close hurriedly. Pototsky said that when he offered this explanation to the Committee, NLC leader Adams Oshiomhole left the room to consult with other union leaders, only to return saying "the MD of Mobil is lying. Such events did not take place."

¶6. (S/NF) Pototsky stressed to Econoff his belief that Mobil stations will be targeted for union action in the coming days, and that he does not discount the use of vandalism or violence. Union officials told Consulate staff that a directive has gone to all state councils urging mass action and disruption of sales of gasoline at stations selling above 34 naira per liter, beginning Monday, October 20. The leader of the activist group United Action for Democracy (UAD), an umbrella organization for many NGOs that led the fight against Abacha, told Poloff that his members will support any NLC call to mass action. Newspapers report the unions are enlisting the aid of the Oddua People's Congress (OPC), a militant Yoruba faction in Southwest Nigeria, to help enforce a 34 naira pump price. Pototsky said his belief that his stations are at great risk in the coming days will force him to decide whether he "caves in" and officially sells gasoline at 34 naira, or "holds out" on his belief that the Petroleum Products Pricing Regulatory Authority (PPPRA) deregulated the downstream market as of October 1, letting him sell at market prices. Pototsky said he expected a conversation with the head of PPPRA on October 17, during which he would seek assurances that the PPPRA and presidency support the marketers' view that deregulation has occurred, and market price prevails. If he does not get such assurances, he will most likely instruct his dealers to sell gasoline at 34 naira per liter. If he gets sufficient indication that the administration will support marketers, he will beef up security at his stations and sell at market price, somewhere around 39 to 40 naira per liter.

TANK FARMS FULL, GAS STATIONS EMPTY

¶7. (S/NF) Other marketers will face the same decision as Pototsky in the coming days. Fuel cargo imported by the private marketers under a Unipetrol contract arrived in Lagos last weekend (ref A), and another was expected on October 16 or 17. News reports peg the landed price of this fuel at 33 naira per liter. On October 6, Texaco executives told Consulate officers that the company's "break even price" was near 45 naira per liter. Pototsky told Econoff on October 16 he could profitably sell at a price six to seven naira above landed cost, which would include transportation costs and "bridging fees" (because of poor pipelines, the GON must truck fuel from the port of Lagos to depots nationwide to ensure fuel supply outside of the Lagos environs -- this process remains no guarantee as cities in the North and East are often without fuel). Demurrage fees (those charged by the owners of ships for each day a cargo vessel remains in port to offload) add a significant variable to fuel costs in Nigeria because of the state of disrepair of the Lagos port fuel terminal.

¶8. (S/NF) Pototsky told Econoff that an industry representative asked the NLC what the marketers are to do with the fuel they imported last week, which cannot be sold profitably at 34 naira (while last week's shipment was eventually disclosed in the press, it is unclear if, at the time of the stakeholders meeting, the NLC was aware of the shipment expected to reach port October 16/17). He said the NLC replied they should leave it in their tanks until the stakeholders Technical Committee reaches an agreement on higher pump prices. Pototsky said marketers may do just that for at least one or two weeks, but to do so would require all retailers to rely solely on fuel supplies from the Nigerian National Petroleum Corporation (NNPC), presumably at subsidized rates, and he is not certain how long NNPC can continue to provide fuel in sufficient quantities to meet anything near demand levels (ref C). Pototsky indicated he is not ready to begin further shipments anytime soon.

¶9. (S/NF) Comment. Both fuel supply and price will remain uncertain in the coming weeks. The decision by Mobil whether to sell at market price or revert to the former government imposed ceiling will likely set the trend for all other marketers. The uncertainty of this situation will linger as long as labor acts brashly to save face, and the government fails to intercede on behalf of the marketers in line with the deregulation plan marketers insist the administration promised would take immediate effect. End Comment.

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